cepr
CENTER FOR ECONOMIC AND POLICY RESEARCH

FACTS & MYTHS ABOUT A FINANCIAL SPECULATION TAX

October 2011

What is a financial speculation tax (FST)?

The FST (also known as a *financial transactions tax* or the *Robin Hood tax*) is a modest set of taxes on Wall Street trading – e.g. 0.25% (1/4 of a percent) on a stock purchase or sale and 0.02% (1/50 of a percent) on the sale or purchase of a future, option, or credit default swap. These rates are proportional to the actual transaction costs in the industry.

What are the key facts about the FST?

- **An FST would raise over $100 billion per year in badly needed revenue or $1 trillion over the course of a decade.** This is a substantial sum of revenue, which skims the fat off of a sector of the economy that can afford to pay it. Other revenue raising options being discussed (such as a value added tax) would fall disproportionately on the middle class.

- **An FST would reduce dangerous financial market speculation.** Since the tax would hit high-volume, high-speed trading the hardest, it would serve to discourage short-term speculation in financial markets as well as the proliferation of ever more complex derivative instruments. More complex derivatives could be subject to the tax many times over, substantially reducing the potential profits from complexity.

- **An FST would encourage longer-term productive investment.** By reducing the volume and profitability of short-term trading that serves no productive purpose, the tax would encourage Wall Street to find new ways to make money off of longer-term productive investments.

- **An FST would put Wall Street to work for Main Street.** Reckless Wall Street gambling cost Americans trillions in lost jobs and wealth and cost states billions in lost revenue. The FST would help take it back and put Wall Street to work rebuilding Main Street with revenue to create jobs and support critical public services.

What are the myths about the FST?

MYTH: *This has never been tried before.*

> TRUTH: The FST is not a new idea. The U.S. had a transfer tax from 1914 to 1966 which levied a 0.02% tax on all sales or transfers of stock. **In 1932, Congress more than doubled the tax to help financial recovery and job creation during the Great Depression.** Transactions taxes were imposed in most financial markets until the last two decades, and there still is a 0.5% stamp tax imposed on each trade on the London Stock Exchange. The

U.S. already has a very modest FST, which is used to finance the Securities and Exchange Commission and the Commodity Futures Trading Commission.

MYTH: *Transactions are so internationally mobile that an FST in one country is unenforceable and will simply result in trading moving overseas.*

TRUTH: **The U.K. has had a tax on stock trades for decades, and the U.K.'s volume of trading has grown robustly.** The revenue it raises each year would be the equivalent of $30 billion in the U.S. economy. This real-world example indicates that a unilateral financial speculation tax would be both successful and enforceable.

MYTH: *The costs will be passed on to average investors.*

TRUTH: **A tax of 0.25% would make little difference to a person who intends to hold onto stocks as a long-term investment.** The FST would cost a trader buying $100,000 of stock only $125 when they purchase their shares. Also, research shows that most investors will respond to a tax by reducing the frequency of their trades. This means that they will spend roughly the same amount on trades, but will just buy and sell shares of stock less often. But to protect small investors further, some Congressional bills specifically exempted 401Ks, college savings and health savings accounts and the first $100,000 in trades.

MYTH: *The FST would tax everyday consumers' bank transactions, such as depositing checks.*

TRUTH: **A financial speculation tax would NOT touch regular bank transactions, but instead place tiny fees on Wall Street trades.** There is a myth circulating on the internet that confuses the FST bills with Rep. Fattah's "*Debt Free America Act*," which would apply a 1% fee on retail and wholesale transactions in order to eliminate the national debt and phase out the income tax.

MYTH: *The idea has little support.*

TRUTH: **The FST is supported by major U.S. unions and business leaders**:

- The Jobs for America Now campaign supports the idea along with SEIU and the AFL-CIO, which has made "*Make Wall Street Pay*" a leading campaign.
- Financiers George Soros and John Bogle (founder of the Vanguard Group) support the idea, along with Warren Buffett – who signed onto an Aspen Institute report recommending an FST.
- Overseas prominent leaders, including French Prime Minister Nicolas Sarkozy and German's Andrea Merkel, support a global FST.
- The *New York Times* highlighted the FST as a top idea of 2008, and prominent economists have supported it, including John Keynes, Nobelists James Tobin and Joseph Stiglitz, James Galbraith, Dean Baker, Robert Pollin and Larry Summers.

- After the 1987 Wall Street crash, an FST was endorsed by Bob Dole and the first President Bush.

Is there any polling on the topic?

Early indicators are that taxes on Wall Street are popular with the public:

- A January 2010 poll showed that over 8-in-10 of Americans agree with the following strongly worded statement (Lake Research poll for Robin Hood tax campaign):

  We need to rein in the greedy, reckless behavior of the big banks on Wall Street that cost millions of jobs and led to huge bailouts on our dime. This tax will put a limit on the casino culture of Wall Street that provides no real value and only exists to line the banker's pockets. This reform will strengthen our financial system to help prevent another crisis and reduce the deficit.

- In a May 2010 poll nearly 6-in-10 voters favored establishing a financial tax on Wall Street speculation that would tax frequent trading of stocks and assets, and then dedicating that money to Social Security in order to make it more solvent (59% favor, 36% strongly favor). Voters also react similarly to these proposals when asked about them within the frame of reducing the deficit. (Lake Research poll for Social Security Works).

- October 2010 "talkback" testing of messages found that "the idea of a 'speculation tax' on trades proved memorable and relatively persuasive" across party lines. (Topos research report for the Ford Foundation).

Is there any interest in the FST in Congress?

In the 111th Congress, Rep. Pete DeFazio introduced the "*Let Wall Street Pay for the Restoration of Main Street Act*," and Senator Tom Harkin introduced the "*Wall Street Fair Share Act*." It is likely that similar FST bills will be introduced in the current 112th Congress.

Currently, in the 112th Congress, there are a few bills that include some form of the FST:

- Rep. Peter Stark has introduced the "*Investing in Our Future Act of 2011*," which applies a small tax (0.005%) on only currency transactions, with the revenues raised directed to child care, global health and climate change.

- Rep. John Conyers has introduced the "*Expanded & Improved Medicare for All Act,*" which would be partially funded by the FST, and the "*Humphrey-Hawkins 21st Century Full Employment and Training Act*," which would impose an FST

- Rep. DeFazio has introduced the "*Taxing Speculators out of the Oil Market Act*," which places a 0.01% tax on transactions in oil futures, options and swaps.